

**CONSUMERS GUIDE TO AUTO INSURANCE**

**PRESENTED TO YOU**

**BY**

**THE DEPARTMENT OF BUSINESS REGULATION**

**INSURANCE DIVISION**

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## **Introduction**

Auto insurance is an expensive purchase for most Americans, and is especially expensive for Rhode Islanders. Yet consumers rarely comparison-shop for auto insurance as they might for other products and services. Auto insurance companies vary substantially both in price and service to policyholders, so it pays to shop around and compare different insurance companies. This guide to buying auto insurance was developed to help you become a more knowledgeable policyholder and to get the combination of price and service best suited to your needs. It provides information on how to shop for coverage and how insurance premiums are determined. You will also find an Auto Insurance Buyer's Worksheet in the guide to help you compare premium prices among insurers.

## **Underwriting and Rating**

Both underwriting and rating determine the price you must pay for auto insurance.

### **What is meant by underwriting and how is it accomplished?**

The purpose of the process called "underwriting" is to determine whether the risk presented will be accepted, denied, or limited. In other words, the underwriter decides whether the insurance company will write an auto policy for an applicant based on the facts given on the application form.

When applying for insurance, you are asked a series of questions for the purpose of assessing the likelihood of your presenting a claim or having a loss. You are asked about your driving record and certain personal characteristics which will influence the rate you will be charged. Some of these characteristics, such as age and gender, are beyond your control. Others can be controlled, but since they relate directly to lifestyle or income, you may find it difficult, such as the place where you live or how you use your automobile(s). A third set of characteristics is highly controllable – the make and model of the car(s) you drive or the limits and coverages you choose to buy, for example.

What does this information tell an insurance underwriter? From prior claim data, insurers know that certain characteristics are indicators of possible loss: married persons tend to have fewer claims than those who are unmarried, people who drive their car to work have more claims than people who drive only for pleasure, to cite a few examples.

When submitting an application, all facts about the risk must be revealed. If, at a later date, it is found that pertinent information has been withheld or overlooked, the company has the right to withdraw its acceptance or modify the premium charges. In certain circumstances it may deny coverage of a claim.

Once the underwriter determines the risk as presented is acceptable, the next step is to determine what rate will be charged.

### **How are rates and premium charges determined in Rhode Island?**

No individual has a rate that is his, exclusively. Applicants are grouped with others who have similar risk characteristics and the entire group pays the same premium. For example, if you own one car and use it to drive to and from work, you will be in a different group from someone who

owns more than one car or one who drives his car only for pleasure. Those who present the least risks will be charged the lowest premium while those who present the higher risk will be charged more, according to their particular risk characteristics.

### **What factors are considered in ratemaking?**

The characteristics with which the underwriter was concerned are now considered, as rating of your automobile policy takes place. While each company has its own rating system, there are many similarities. Some of the commonly asked questions and their relationship to loss history include the following:

1. **Driving Record.** You will be asked about accidents and traffic violations incurred by any driver to be covered by the policy during the preceding three (3) years. Drivers with previous violations or at-fault accidents are considered to be a higher risk and may be charged a higher rate.

**NOTE:** Most companies will insist on rating the policy for all members of the household who have a driver's license and are not currently insured.

2. **Territory.** The place where you garage your automobile and, therefore, do most of your driving is important in the rating process. Experience shows that more losses and accidents happen in urban areas than in rural ones. There are many reasons for this: more cars and drivers per square mile create a condition where more collisions take place. At the same time there is a higher incidence of theft and vandalism, as well as other crimes such as drunk driving, hit and run, and arson.
3. **Gender and Age.** Statistics show males have more accidents than females and that a higher number of accidents arise from some age groups than from others.
4. **Marital status.** Claim statistics show a lower rate of auto insurance claims among married policyholders.
5. **Prior insurance coverage.** Your new insurance company wants to know about your relationship with your previous company – if you were canceled or not renewed, for instance.
6. **Use of vehicle.** How often and how far you drive the vehicle being insured is important as more frequent use means more opportunity to become involved in an accident.
7. **Type of coverage and limits of liability chosen.** The more coverage you purchase, the higher the premium will be.
8. **Make and model of vehicle.** The type and value of the care you drive directly affects the premium you pay for physical damage coverages. A make or model of car that has a history of a high number of claims for theft or vandalism or high repair costs due to body construction will carry a higher premium than the plain, less expensive auto.

**NOTE:** Premiums for liability do not vary with the type of auto being insured as that coverage pays for damage to another person or his property, should you be at fault in an accident.

The single greatest influence on the rating process is claim frequency. This does not mean how many times you, individually, have made a claim, although that will have an additional effect.

Claim frequency measures how often claims occur within a group relative to the number of policies in that group. Persons sharing characteristics with a group having high claims experience are charged more than if associated with a group having lower claim experience. The data used to show claim experience is gathered from the actual claims, which took place – not “dreamed up” by insurance company personnel. The presentation of this data to the state Insurance Department is necessary whenever a company desires to change its rates and is closely checked by the state’s actuaries.

### **What discounts are used in determining final premium cost?**

Discounts may be allowed by the company you chose for any or all of the following:

1. **Multiple vehicles on the same policy.** This discount is offered to consumers who insure more than one car with the same insurance company. Statistics show that individuals and families that insure more than one car have better than average claim experience.
2. **Driver Education courses.** A discount is given younger and older drivers who can prove completion of a certified driver-training course.
3. **Good Student.** Students who earn a B average or better tend to be more responsible drivers and may be eligible for this discount.
4. **Safety devices.** Certain safety devices can result in lower cost by preventing accidents or limiting their severity. Discounts may be available for air bags, automatic seat belts and anti-lock brakes. Proof that your car is equipped with these items must be shown.
5. **Low mileage.** The fewer miles you drive, the less chance you have of being involved in an accident. Some companies offer discounts for drivers who participate in car pools or drive to and from work on a limited basis.
6. **Good driver/renewal discount.** Drivers with a good driving record are given discounts by most companies as are those who renew their policy with the same insurer.
7. **Auto/Home package.** Some insurers offer a discount on one or both policies if an individual buys both homeowners and auto coverage from them.
8. **Anti-theft devices.** The installation of devices or systems that deter theft or vandalism may also qualify you for a policy discount. Again, proof of installation is required.
9. **Dividends.** While dividends are not discounts, they do serve to lower premiums. Some insurers offer dividends to policyholders if the sale of auto insurance is profitable for them. These are declared and paid after the policy period has expired and, in some cases, may be applied directly to the following year’s premium.

### **Rhode Island Automobile Insurance Plan**

This plan is more commonly referred to as the “Assigned Risk Pool”. Insureds who try to get coverage from a regular insurer and are refused are placed in this pool. Most insurers refuse coverage because the insured does not meet their underwriting guidelines discussed previously. Under the terms of the Assigned Risk Pool, insurers are required to “take you out” of the Plan after one year if you have a three (3) year satisfactory driving record. The notice you receive

authorizes you to switch to your Plan insurer's regular coverage, which is usually substantially less expensive. You now have three options: one, to ask your current agent to find coverage for you with an insurer the agent represents, two, to go back in the Plan, or three, to directly contact the insurer the Plan has assigned to "take you out". There is a potential problem: if your agent is not affiliated with the insurer assigned to "take you out" of the Plan, the agent receives no commission and loses you as a client for auto insurance if you exercise your "take out" rights. You should be aware that agents who cannot place you with an insurer they represent may state that they have no alternative but to put you back in the Plan even if the "take out" coverage would save you money. Whatever you do, don't ignore the "take out letter". Make sure you get a quote from the insurer assigned to "take you out", then decide. Call the Insurance Division if you have a problem or a question.

### **Regulation of Rates**

Before any rate is implemented by your insurer it must be submitted to the Insurance Division for approval. The Insurance Division's staff reviews in detail the rates proposed to be charged to be sure that they are set properly and that are not excessive, inadequate, or unfairly discriminatory. They often use ratemaking experts called actuaries to assist them. In some cases, a public hearing is held and the public is represented by the Attorney General's Office. The Department will only allow that portion of the proposed rates that is justified by the evidence in the filing.

The division also has market conduct examiners who periodically audit insurers. The audit consists of checking the rates used by the insurer and the claims handling procedures to be sure that the insurer complies with all insurance regulations and laws governing how insurers treat their customers.

### **The Tort System**

In Rhode Island, the tort system is used when settling losses caused by auto accidents. Under this system, you do not buy insurance that protects you directly. Rather, you buy "liability" insurance that protects other drivers to whom you become legally responsible for injury or other damage caused by an accident in which you are involved, should the accident be your fault. This means, when buying auto liability insurance, you transfer your risk of liability for injury or damage under tort liability laws to the insurance company. Put another way, the company steps into your shoes and pays for damage in an auto accident for which you are legally responsible.

As of November 1, 1993, the laws of the State of Rhode Island require every driver and owner to be financially responsible in case of an auto accident – the purchase of automobile liability insurance being the only practical way to comply. Penalties will be levied on owners and drivers without the coverage. If you are involved in an auto accident and the other driver is uninsured, you should contact the Division of Motor Vehicles, Financial Responsibility Unit at 1-401-222-2970 to report the uninsured motorist.

### **Liability Coverages**

Most automobile liability policies contain three major parts: liability for bodily injury (commonly called BI), liability for property damage (PD) and uninsured/underinsured motorists coverage (usually referred to as UM/UIM).

Bodily injury coverage pays for injury to other persons for which you are legally responsible because you were at fault in an accident in which they were hurt. The insurance protects you

against their claims for such things as medical expenses, lost wages and pain and suffering. While it does NOT pay for injuries for you or anyone else driving your car, it does pay if the accident was caused by a member of your family residing with you or a person using your car with your consent. It will also protect you and members of your family if driving someone else's car with their consent, should their insurance not be in force, or in case damages exceed the amount available under the owner's policy.

In Rhode Island, you must carry minimum limits of bodily injury liability - \$25,000 per person and \$50,000 per accident. This means you have coverage up to \$25,000 for damages incurred by any one person and up to \$50,000 in any one accident should more than one person be involved. You may elect to purchase higher limits, based on your wish to protect your assets from lawsuits above these minimum amounts. Keep in mind that as you raise your coverage, your premiums increase because you are asking the insurance company to assume responsibility for higher amount, should a claim occur.

Property Damage liability coverage pays for damage to property for which you are legally responsible for in the case of an at-fault accident. Property of others usually involves damage to another car, but it also could be a telephone pole, lawns, fence, or even a building. This coverage pays not only when you are driving but when others are driving with your permission. The minimum limit required in Rhode Island for property damage is \$25,000 per accident. Again, a higher limit is available for additional premium.

Uninsured Motorists coverage protects you. It pays if you are injured by a hit-and-run driver or a driver who does not have auto insurance. This coverage, in effect, takes the place of what the other driver should have purchased but did not. Coverage is also provided for under-insured drivers – those who have insurance, but not enough to cover your claim. This coverage, too, has policy limits. It covers bodily injury and property damage (property damage is subject to a deductible of \$200). After payment to you for damages, your insurance company may sue the other driver for the money paid to you because of the other driver's negligence.

In Rhode Island, you may decline to purchase uninsured/underinsured motorist coverage if you choose to buy only minimum limits of bodily injury and property damage liability as required by law.

Bodily Injury, Property Damage Liability, and Uninsured/Underinsured Motorist Coverage are the basic coverages contained in liability policies and are mandatory under the laws of Rhode Island (with the exception as mentioned for UM). Other coverages, including those covering the automobile itself, are available at your option.

### **Coverages Other Than Liability**

Apart from liability insurance which must be purchased under the laws of the State of Rhode Island, there are a number of other coverages which may be purchased under an auto policy.

### **Physical Damage to the Automobile**

1. Comprehensive coverage pays for damage to your auto from almost all other causes, including fire, hail, windstorm, vandalism, flood and theft. It also pays for broken glass, such as windshield damage. Comprehensive coverage is less expensive than collision and many consumers choose to carry it. The lending institution carrying the loan on your automobile will probably require you to carry comprehensive.

2. Collision coverage pays for damage to your car as the result of colliding with another object, such as a tree or another automobile. While optional under the policy, it may be required by your lending institution or the company from which you may be leasing the car. It is relatively expensive coverage. Again, the lending institution carrying the loan on your automobile will probably require you to carry collision

Sometimes it is not worthwhile to pay for collision coverage. The automobile policy only requires the company to coverage your financial losses, not to replace your vehicle. Under certain circumstances, the repair costs on an older automobile may exceed the value of the car. In such cases, insurers will “total” the car and pay you what the car is worth rather than fixing it. In extreme cases, the worth of the car may not be as much as the premium you are asked to pay for the collision coverage on the vehicle.

Companies require you to purchase these two coverages with a deductible. A “deductible” is the amount of money you agree to pay as part of a claim before your insurer is committed to pay the remainder of the claim. For example, if you carried a \$200 deductible on your collision coverage and had a \$500 loss, you would have to pay the first \$200 to repair the auto and the insurance company would pay the remaining \$300. If the loss is below \$200, the company pays nothing. You can buy deductibles in varying amounts, with the cost decreasing as the deductible increases. Thus, a policy with a \$250 deductible would cost less than a \$100 deductible, but more than if you bought a \$500 deductible. Since deductibles reduce the number and amount of claims, adjustment expenses of insurance companies are reduced.

If you obtain a loan to purchase the automobile, the bank or other lender uses the car as collateral for your loan, thus, their requirement that you insure the vehicle itself against loss.

### **Other Optional Coverages**

1. Medical payments coverage pays for the medical and funeral expenses for you or others injured or killed while in, on, or alighting from the automobile. It also covers you or members of your family residing in your household if struck by an auto while a pedestrian or in, on or alighting from a non-owned auto. Medical expenses are paid even if you cause the accident. Reimbursement only is paid for those expenses incurred within two years following the accident.
2. Rental reimbursement coverage pays the cost of renting a car while yours is being repaired. The amount paid per day of rental is limited as is the number of days payment will continue. These will vary by company.
3. Towing and labor coverage pays the cost of towing your car, should it become disabled. It will also pay for repairs made to the auto at the place of disablement. Note that the car must be disabled for coverage to apply. Coverage is generally limited to \$25.00 per disablement.

You should be aware that these coverages may duplicate coverage you already have through other policies. For example, medical payments coverage may duplicate medical benefits available to you through your health insurance. If you are a member of an auto club, you probably already have coverage for towing.



## **The No-Fault System**

In some states a system called “No Fault” replaces the tort system and your policy will revert to this system if you are involved in an accident in any of those states, if the state requires on – residents to have No-Fault coverage. While No-Fault laws vary widely, they all follow the same principle which you should understand, in case you have an accident while traveling in any of these states.

When a No Fault Law is in effect, you need not go through the court system to prove fault in an accident to collect for your financial loss if that loss is due to bodily injury sustained in an auto accident. In essence, you swap your right to recover certain kinds of money damages for an assurance that your wages and medical costs will be paid quickly, and without regard to fault. Individuals injured in a traffic accident file claims with their own insurance company. Each motorist deals with his or her own insurer, and there is no need to determine who is at fault, except in cases of “serious” injury.

In cases of serious injury, you can still sue the at fault driver and recover for such things as pain and suffering, disfigurement and loss of spousal companionship. By the same token, you can still be sued by the other person if the accident is your fault and the other party suffers serious injury.

The definition of “serious” injury under a no fault system will vary from state to state. In some states, it is set by a dollar amount – any injury resulting in medical costs over a certain amount set by law is considered “serious”. In others, only those injuries named specifically in the law will meet the standard – usually including those resulting in death, loss of bodily function, a broken bone or bones or disfigurement, for example.

It is important to remember that this system of payment applies to bodily injury only. Medical costs, rehabilitation services, replacement of wages, and household replacement services are generally covered. Property damage claims are handled under the tort system as previously described.

## **Smart Shopping**

No one wants to pay more for their auto insurance than is necessary. The best way to determine whether your premium is fair is to shop around. Comparison shopping takes time, but can save you money and is the best way to find the best insurance company for you and your family. Remember that you may stay with your insurance company for years, so it is wise to invest time now shopping around. Different companies charge different rates for the same coverages. The key is to know what you need before you start and to find out how much various companies charge. It is also important to ask about the service you will receive later. While this does not seem as important as price at the time of purchase, reliable and efficient assistance is of prime importance at time of loss or accident. Insurance agents can be helpful, but be careful to recognize that they can only get you insurance with companies they are agents for, and the best company for you may be one the agent doesn’t represent.

## **Seek Unbiased Information**

Consumers can consult a number of unbiased sources for information. Public libraries, your state insurance department, consumer groups and consumer publications are all excellent sources. Because the insurance industry, like many other businesses uses many words in a different

context than the average person, consumers may need to consult a glossary or dictionary of insurance terms from the public library.

### **Shop For True Comparisons**

When you begin to contact companies, you should understand how insurance companies sell insurance. There are different sales systems in use. You can buy from some companies through agents, from some through the mail and from some companies directly. Each has its own benefits and you must decide which is best for you.

Most companies and many agents advertise. Check the newspaper and yellow pages of the telephone directory for those in your area. In addition, contact your neighbors, relatives, and friends for recommendations. Ask them about their experience regarding price and service, particularly the kind of claim service they have received from the companies they recommend.

Consumers often rely on their insurance agent or company to tell them what kind of coverage they need. When doing this, use the knowledge you have gained to ask the right questions so you are certain the advice is good, not just given to make a sale. Competition in the marketplace keeps premiums down, however, if consumers want the lowest price possible, they must take responsibility for finding it. Competition only works if the consumer shops for coverage.

One last word of advice – you are wise to consider more than price when purchasing insurance. Establishing a long-term relationship with a company and agent, and prompt, excellent service can be worth paying a little more. As in all other purchases, sometimes the price is too good to be true and you only get what you pay for.

When shopping for auto insurance, it is crucial that you give the same information to each agent or company so that you have a true price comparison. Be sure to note all coverages included in the quotation and limits of each. Some companies quote on a “package” basis – the coverages and limits included are the only ones they offer and may differ from a company which doesn’t use this method of pricing.

The information needed for an accurate quote is that referred to in the rating process section of this guide. For your convenience, a buyer’s worksheet is included in this guide.

### **Consumer Protection Available**

Once you have selected the insurance coverages you need and an agent or company from which you have decided to buy, there are steps you can take to make certain you get your money’s worth.

The state insurance department can verify that the company and the agent with which you are dealing are licensed in Rhode Island. It is illegal for unlicensed persons or companies to sell insurance. Business cards are not proof of a licensed agent or company. If you do business with an unlicensed company or agent, you have no guarantee that the policy and coverage you pay for will ever be honored.

If you are contacted by an unlicensed agent or company, call the insurance division at the Department of Business Regulation so that regulatory action can be taken. By doing so, you may protect someone less knowledgeable than you from being victimized.

An auto insurance policy is a legal contract. It is written so that your rights and responsibilities as well as those of the insurance company are clearly stated. When you receive your policy (and be sure you do receive one), read it and make certain you understand its contents and what you have agreed to do as well as what the company promises it will do. If you have questions about the terms, contact your agent or company for clarification. If you still have questions, call the state insurance department.

### **Your State Insurance Department**

The insurance division at the Department of Business Regulation exists to serve you. Please contact us at 401-222-2223, if you need any assistance. It is our responsibility to be sure insurers doing business in the state abide by the laws and regulations of Rhode Island. We are also a source of unbiased information and assistance to you.

If you have a complaint against an insurer or insurance agent, contact your company first and attempt to settle the matter. Companies have policyholder service offices set up precisely to handle such problems. If you still are not satisfied, contact the state insurance department. There is a complaint analyst on staff to help you with your problem. Although the department cannot represent you legally against a company, agent, appraiser, or adjuster, it can make appropriate investigation into potential violations of insurance laws or regulations based upon your complaint and force compliance.

## **AUTO INSURANCE BUYER'S WORKSHEET**

	<u>Write Amount of Coverages Here</u>		<u>Write Premium Quotes Here</u>
Company Name 1: _____ 2. _____			
<b>Minimum Coverage Required in R.I.</b>			
Bodily Injury	<u>\$25,000/50,000</u>		_____
Property Damage Liability	<u>\$25,000</u>		_____
Uninsured/Underinsured Motorist	<u>\$25,000/50,000*</u>		_____
*May Be Declined By Signing Waiver Form			
	SUBTOTAL A:		_____
<b>Level of Coverage You Desire For:</b>			
Bodily Injury Liability	_____		_____
Property Damage Liability	_____		_____
Medical Payments	_____		_____
Collision:	_____		_____
a. \$100 Deductible:	_____		_____
b. \$250 Deductible:	_____		_____
c. \$500 Deductible:	_____		_____
Comprehensive:	_____		_____
a. \$50 Deductible:	_____		_____
b. \$100 Deductible:	_____		_____
c. \$250 Deductible:	_____		_____
Uninsured/Underinsured Motorist:	_____		_____
	SUBTOTAL B:		_____
<b>Other Coverages You Might Consider:</b>			
Towing and Labor	_____		_____
Rental Car Reimbursement	_____		_____
	SUBTOTAL C:		_____
<b>Do Any Other Charges Apply:</b>			
Membership Fee:	_____		_____
Surcharge:	_____		_____
Discounts:	_____		_____
	SUBTOTAL D:		_____
What's Your Choice? (Subtotal A or B, Plus C and D)	TOTAL PREMIUM:		_____
Will The Company Forgive the First At-Fault Accident		Yes • No	Yes • No

